

Energy Policy Act of 2005

For Homeowners

- The Act provides financial incentives to improve the energy efficiency of new construction and existing homes. The incentives apply to improvements and equipment placed in service during 2006-2007 such as new exterior windows, added insulation, higher efficiency furnaces, etc.
- Tax credits are also available for the installation of qualifying solar electric and solar thermal systems.
- **Note: the IRS is still in the process of developing specific rules that apply to this Act.**

Select Provisions of the Energy Policy Act of 2005

Sec 124 Energy Efficient Appliance Rebate Program

A state energy efficient appliance rebate program to provide rebates to residential customers for the purchase of residential Energy Star products. *Note: although EPA Act authorized funding for the rebate program, congress did not appropriate the funds for the 2006 fiscal year. The program may be funded in FY2007. Refer to related Section 1334.*

Sec 1332 Construction of New Energy Efficient Homes

This provision offers homebuilders a tax credit of \$2,000 for homes that cut energy use for heating and cooling only (no hot water) by 50% compared to a dwelling constructed in accordance with the 2003 IECC plus 2004 Supplement and whose heating and cooling efficiencies are pursuant to the National Appliance Energy Conservation Act of 1987 in effect at the time of completed construction (assume an SEER-13 air conditioner).

Producers of manufactured homes can also choose to qualify for a tax credit of \$1,000 for homes that save 30%.

Eligible homes must demonstrate savings using software that has been approved by DOE and builders must demonstrate compliance by the use of third-party inspectors certified according to DOE rules.

Sec. 1333 Energy Efficient Improvements to Existing Homes

These provisions offer cost-based incentives of 10% of the amount expended by the taxpayer for "Qualified Energy Efficiency Improvements" and "Qualified Energy Property" up to a maximum credit limit of \$500. The incentives apply to improvements and equipment placed in service during 2006-2007. **See limits below**

"Qualified Energy Efficiency Improvements" means any energy efficient building envelope component which meets the prescriptive criteria for such component established by 2000 IECC (including supplements) in effect on August 8, 2005. Energy Efficiency Improvements include:

- Any insulation material or system specifically designed to reduce heat loss or gain
- Exterior windows and skylights
- Exterior doors
- Any metal roof having pigmented coatings specifically designed to reduce heat gain which meet Energy Star program requirements.

"Qualified Energy Property" means HVAC equipment, water heaters, hot water boilers, and advanced main air circulating fans:

- Electric heat pump water heater with EF of 2.0 or greater
- Electric air source heat pumps with HSPF of 9.0 or greater
- Geothermal heat pumps:
 - Closed loop products with EER of 16.2 and COP of 3.3 or greater
 - Open loop products with EER of 14.1 and COP of 3.3 or greater
 - Direct expansion (DX) products with EER of 15 and COP of 3.5 or greater
- Central air conditioner that receives the highest efficiency tier established by the Consortium of Energy Efficiency as of January 1, 2006
- Natural gas, propane or oil water heater with EF of 0.80 or greater
- Natural gas, propane or oil furnace or hot water boiler with AFUE of 95% or greater
- Advanced main air circulating fan used in natural gas, propane or oil furnace that uses no more than 2% of the total annual energy use of the furnace

Credit limitations on qualified expenses are as follows:

- \$50 for any advanced main air circulating fan
- \$150 for any qualified natural gas, propane, or oil furnace or hot water boiler
- \$200 for qualified exterior windows
- \$300 for any item of energy-efficient building property

Sec 1334 Business Tax Credit for Energy Efficient Appliances

A production credit is available to the manufacturers of qualifying energy efficient dishwashers, clothes washers, and refrigerators. *Note: the impact will be limited because the credit only applies to products made in the U.S.*

Sec 1335 Solar Photovoltaic and Hot Water Systems

This provision offers tax credits to individuals for residential solar energy systems. The incentives apply to equipment placed in service during 2006-2007. The tax credit applies to the cost after accounting for any state and utility incentives.

- For solar hot water systems, the allowable tax credit is 30% of the qualified solar system expenditures up to a maximum tax credit limitation of \$2,000. The system must be certified by the [Solar Rating and Certification Corporation \(SRCC\)](#) and produce 50% or more of the hot water needed by the residence.
- For solar photovoltaic (PV) systems, the allowable tax credit is 30% of the qualified PV system expenditures up to a maximum tax credit limitation of \$2,000. There is no qualification provided for PV systems.

Individuals may claim tax credits for either or both types of solar systems.

In addition, the provisions of the bill substantially increases the "production" tax credit available to the manufacturers of solar equipment from 10% to 30% during 2006-2007. Reference Section 1337.